

# News Release

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## **Retailers Paying Three Percent of Sales Tax Costs on Compliance, PricewaterhouseCoopers Survey Reveals**

**Washington D.C. – May 3, 2006** – A national survey commissioned by the Joint Cost of Collection Study (JCCS), a partnership of business and government organizations, reveals that the retailers' sales tax compliance burden averages more than three percent of sales tax collected, a \$6.8 billion annual cost to retailers at 2003 sales tax levels. The study, conducted by PricewaterhouseCoopers LLP (PwC), quantifies the burden that all retailers, especially smaller companies, face when complying with requirements to collect state and local sales taxes on customers' purchases.

"This survey marks a significant first step in determining how much it costs retailers to comply with state and local sales tax laws and regulations," said Joe Huddleston, executive director of the Multistate Tax Commission and co-chair of the Joint Cost of Collection Study (JCCS) Steering Committee. "However, more work is needed to make definitive statements about which elements of state and local sales tax laws are truly the most burdensome to retailers."

According to the study, the categories of costs for retailers vary, depending on their size. For small retailers (those from \$150,000 to \$1 million in annual sales), the top three sales tax compliance cost categories, based on preliminary evidence are: (1) return preparation and related costs; (2) documentation of tax-exempt sales; and (3) training of personnel on sales tax.

For medium-sized retailers (from \$1 million to \$10 million in annual sales), return preparation and documentation of tax-exempt sales were also the top two compliance cost categories, and debit/credit card fees attributable to sales tax collections ranked third.

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For large retailers (above \$10 million in annual sales), the most important compliance cost categories are: (1) debit/credit card fees on sales tax collections; (2) unrecovered sales tax paid due to bad debts; and (3) training of personnel on sales tax.

**Gross Compliance Costs by Type and by Size of Annual Retail Sales, 2003**  
[As a percentage of total state and local sales tax collections]

Compliance Costs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted average
<b>For retailers that provided cost breakdown</b>	<b>16.84%</b>	<b>4.21%</b>	<b>1.03%</b>	<b>1.81%</b>
<i>Training of personnel on sales tax</i>	1.87%	0.55%	0.35%	0.41%
<i>Documenting tax-exempt sales</i>	3.80%	0.87%	0.13%	0.31%
<i>Customer service relating to sales tax issues</i>	0.74%	0.21%	0.06%	0.10%
<i>Sales tax-related software and license fees</i>	1.86%	0.36%	0.10%	0.17%
<i>Programming and servicing cash registers</i>	1.17%	0.35%	0.10%	0.16%
<i>Returns, remittances, refund credits, sales tax research</i>	5.35%	1.19%	0.12%	0.38%
<i>Dealing with sales tax audits and appeals</i>	1.03%	0.46%	0.12%	0.18%
<i>Other compliance costs</i>	1.03%	0.23%	0.05%	0.11%
<b>For retailers that did not provide cost breakdown</b>	<b>9.08%</b>	<b>3.41%</b>	<b>1.54%*</b>	<b>2.56%*</b>
<b>Related compliance costs for all retailers</b>	<b>1.85%</b>	<b>1.29%</b>	<b>1.02%</b>	<b>1.09%</b>
<i>Debit/credit card fees on sales tax</i>	0.76%	0.76%	0.64%	0.66%
<i>Unrecovered sales tax paid due to bad debt</i>	1.09%	0.53%	0.38%	0.43%
<b>Total gross compliance costs for all retailers</b>	<b>13.47%</b>	<b>5.20%</b>	<b>2.17%</b>	<b>3.09%</b>
<i>External costs of compliance</i>	3.79%	0.87%	0.14%	0.42%
<i>Internal costs of compliance</i>	9.68%	4.33%	2.03%	2.67%

\* Not statistically significant at the 5% level.

"Both business and government can have confidence in this data as an indicator of the burden sales tax administration places on retailers," said Wayne Zakrzewski, vice president, associate general counsel-Tax J.C.Penney Corporation, Inc., and co-chair of the JCCS Steering Committee.

The population for the study consisted of retail firms, other than eating and drinking establishments with annual sales in excess of \$150,000, listed in Dun and Bradstreet's ("D&B") business file. More than 13,000 surveys were sent to retailers with an overall response rate of eight percent. The survey was fielded in several waves from August 2004 through March 2005 and included retailers that have sales tax collection responsibilities solely within a single state as well as multistate retailers.

For a copy of the study please contact Tanja Knust at (212) 468-2937.

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### **About The Joint Cost of Collection**

The Joint Cost of Collection Study, a public/private sector group under the auspices of the Streamlined Sales Tax Project, is undertaking a study to determine what costs retailers incur for the collection of sales and use taxes. This study would be a comprehensive multi-year study to measure collection costs under the current sales and use tax system and the effect on those costs—including costs shifted from vendors to state—of the Streamlined Sales Tax.

The sponsoring organizations are: National Retail Federation; Council on State Taxation; Multistate Tax Commission; Federation of Tax Administrators; National Conference of State Legislatures; and the Government Finance Officers Association.

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